Grace has received notification from a foreign taxing authority assessing tax deficiencies plus interest relating to the purchase and sale of foreign bonds in 1989 and 1990. This assessment is related to the Bekaert Group which Grace sold in 1991 but retained liability for tax deficiencies attributable to tax periods prior to the sale. The matter is currently before the foreign tax authorities where protests have been filed but no decision has been rendered.

Grace is currently under audit for its U.S. Federal tax returns covering 1993 to 1996. Federal income tax returns for 1997 to 1999 are open and subject to future audits.

ENVIRONMENTAL

In February 2000, a class action lawsuit was filed in U.S. District Court in Missoula, Montana against Grace on behalf of all owners of real property situated within 12 miles from Libby, Montana that are improved private properties. The action alleges that the class members have suffered harm in the form of environmental contamination and loss of property rights resulting from Grace's former vermiculite mining and processing operations. The complaint seeks remediation, property damages and punitive damages. Grace has no reason to believe that its former activities caused damage to the environment or property. Apart from the lawsuit, Grace and the U.S. Environmental Protection Agency have undertaken remediation actions in Libby, Montana at two sites associated with the former Grace operations there.

ACCOUNTING FOR CONTINGENCIES

Although the outcome of the matters discussed above and in Note 3 cannot be predicted with certainty, Grace has assessed its risk and has made accounting estimates as required under generally accepted accounting principles.

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14. BUSINESS SEGMENT INFORMATION

The table below presents information related to Grace's business segments for the three-month and nine-month periods ended September 30, 2000 and 1999:

BUSINESS SEGMENT DATA (Dollars in millions)	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
NET SALES				
Davison Chemicals...	$ 192.6	$ 178.4	$ 567.3	$ 529.6
Performance Chemicals.........	202.1	193.8	576.9	561.0
TOTAL..............	$ 394.7	$ 372.2	$1,144.2	$1,090.6
PRE-TAX OPERATING INCOME				
Davison Chemicals...	$ 33.5	$ 33.2	$ 104.0	$ 86.3
Performance Chemicals.........	30.6	31.2	80.8	80.0
TOTAL..............	$ 64.1	$ 64.4	$ 184.8	$ 166.3

The table below presents information related to the geographic areas in which Grace operated for the three-month and nine-month periods ended September 30, 2000 and 1999:

GEOGRAPHIC AREA DATA (Dollars in millions)	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
NET SALES				
United States.....	$ 203.7	$ 187.3	$ 587.1	$ 546.0
Canada and Puerto Rico......	9.3	8.9	27.1	24.5
Germany..........	67.8	68.9	189.9	203.3
Europe, other than Germany...	33.3	37.6	110.4	112.5
Asia Pacific......	55.0	50.5	154.7	145.9
Latin America.....	25.6	19.0	75.0	58.4
TOTAL..............	$ 394.7	$ 372.2	$ 1,144.2	$1,090.6

The pre-tax operating income for Grace's business segments for the three-month and nine-month periods ended September 30, 2000 and 1999 is reconciled below to amounts presented in the accompanying Consolidated Statement of Operations:

RECONCILIATION OF BUSINESS SEGMENT DATA TO FINANCIAL STATEMENTS (Dollars in millions)	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
Pre-tax operating income - business segments...........	$ 64.1	$ 64.4	$ 184.8	$ 166.3
Interest expense and related financing costs..............	(8.0)	(3.5)	(20.2)	(11.4)
Interest income......	2.3	1.2	7.4	2.9
Corporate operating costs..............	(11.1)	(15.5)	(33.3)	(39.5)
Other net............	5.9	4.6	6.3	9.8
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES.....	$ 53.2	$ 51.2	$ 145.0	$ 128.1

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

CONTINUING OPERATIONS

Grace is engaged in specialty chemicals and specialty materials businesses on a global basis. The principal business segments are Davison Chemicals, which produces catalysts and silica products, and Performance Chemicals, which produces construction chemicals, building materials and container products. Set forth below is a chart that lists key operating statistics and percentage changes for the three and nine month periods ended September 30, 2000 and 1999, which should be referenced when reading management's discussion and analysis of the results of continuing operations. The chart below, as well as the financial information presented throughout this discussion, divides Grace's financial results between "core operations" and "noncore activities." Core operations comprise the financial results of Davison Chemicals, Performance Chemicals and the costs of corporate activities that directly or indirectly support business operations. In contrast, noncore activities comprise all other events and transactions that are not directly related to the generation of customer revenue or the support of core operations. The Company's financial strategy is to maximize returns and cash flows from core operations to fund business growth and to provide resources to satisfy its obligations that remain from past businesses, products and events.

ANALYSIS OF CONTINUING OPERATIONS (Dollars in millions)	THREE MONTHS ENDED SEPTEMBER 30, 2000	1999	% Change Fav (Unfav)	NINE MONTHS ENDED SEPTEMBER 30, 2000	1999	% Change Fav (Unfav)
NET SALES						
DAVISON CHEMICALS						
Refining catalysts	$ 105.1	$ 98.5	6.7%	$ 318.3	$ 292.2	8.9%
Chemical catalysts	30.2	28.0	7.9%	89.3	81.9	9.0%
Silica products	57.3	51.9	10.4%	159.7	155.5	2.7%
TOTAL DAVISON CHEMICALS	192.6	178.4	8.0%	567.3	529.6	7.1%
PERFORMANCE CHEMICALS						
Construction chemicals	83.2	80.2	3.7%	237.0	222.3	6.6%
Building materials	57.1	54.9	4.0%	166.8	161.3	3.4%
Container products	61.8	58.7	5.3%	173.1	177.4	(2.4%)
TOTAL PERFORMANCE CHEMICALS	202.1	193.8	4.3%	576.9	561.0	2.8%
TOTAL GRACE SALES - CORE OPERATIONS	$ 394.7	$ 372.2	6.0%	$1,144.2	$1,090.6	4.9%
PRE-TAX OPERATING INCOME:						
Davison Chemicals	$ 33.5	$ 33.2	0.9%	$ 104.0	$ 86.3	20.5%
Performance Chemicals	30.6	31.2	(1.9%)	80.8	80.0	1.0%
Corporate operating costs	(11.1)	(15.5)	28.4%	(33.3)	(39.5)	15.7%
PRE-TAX INCOME FROM CORE OPERATIONS	53.0	48.9	8.4%	151.5	126.8	19.5%
PRE-TAX INCOME FROM NONCORE ACTIVITIES	5.9	4.6	28.3%	6.3	9.8	(35.7%)
Interest expense	(8.0)	(3.5)	(128.6%)	(20.2)	(11.4)	(77.2%)
Interest income	2.3	1.2	91.7%	7.4	2.9	155.2%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	53.2	51.2	3.9%	145.0	128.1	13.2%
(Provision for) income taxes	(19.1)	(18.4)	(3.8%)	(52.1)	(46.1)	(13.0%)
INCOME FROM CONTINUING OPERATIONS	$ 34.1	$ 32.8	4.0%	$ 92.9	$ 82.0	13.3%
KEY FINANCIAL MEASURES:						
Pre-tax income from core operations as a percentage of sales	13.4%	13.1%	0.3 pts	13.2%	11.6%	1.6 pts
Pre-tax income from core operations before depreciation and amortization	$ 74.6	$ 71.9	3.8%	$ 217.4	$ 194.6	11.7%
As a percentage of sales	18.9%	19.3%	(0.4) pts	19.0%	17.8%	1.2 pts
NET SALES BY REGION:						
North America	$ 213.0	$ 196.2	8.6%	$ 614.2	$ 570.4	7.7%
Europe	101.1	106.5	(5.1%)	300.3	315.9	(4.9%)
Asia Pacific	55.0	50.5	8.9%	154.7	145.9	6.0
Latin America	25.6	19.0	34.7%	75.0	58.4	28.4%
TOTAL NET SALES	$ 394.7	$ 372.2	6.0%	$1,144.2	$1,090.6	4.9%

NET SALES

The following tables identify the increase or decrease in sales attributable to changes in product volume, product price and/or mix, and the impact of foreign currency translation for the three-month and nine-month periods ended September 30, 2000.

NET SALES VARIANCE ANALYSIS	THREE MONTHS ENDED SEPTEMBER 30, 2000 AS A PERCENTAGE INCREASE (DECREASE) FROM THREE MONTHS ENDED SEPTEMBER 30, 1999			
	VOLUME	PRICE/MIX	TRANSLATION	TOTAL
Davison Chemicals...	6.4%	6.5%	(4.9%)	8.0%
Performance Chemicals	7.4%	(0.7%)	(2.4%)	4.3%
Net sales...........	6.8%	2.8%	(3.6%)	6.0%
By Region:				
North America.....	6.6%	2.0%	0.0%	8.6%
Europe............	1.2%	5.4%	(11.7%)	(5.1%)
Asia Pacific......	9.5%	0.5%	(1.1%)	8.9%
Latin America.....	35.3%	2.0%	(2.6%)	34.7%

NET SALES VARIANCE ANALYSIS	NINE MONTHS ENDED SEPTEMBER 30, 2000 AS A PERCENTAGE INCREASE (DECREASE) FROM NINE MONTHS ENDED SEPTEMBER 30, 1999			
	VOLUME	PRICE/MIX	TRANSLATION	TOTAL
Davison Chemicals...	7.0%	4.9%	(4.8%)	7.1%
Performance Chemicals	4.9%	(0.1%)	(2.0%)	2.8%
Net sales...........	6.0%	2.3%	(3.4%)	4.9%
By Region:				
North America.....	4.9%	2.7%	0.1%	7.7%
Europe............	3.6%	3.3%	(11.8%)	(4.9%)
Asia Pacific......	5.1%	0.0%	0.9%	6.0%
Latin America.....	32.9%	(1.4%)	(3.1%)	28.4%

In the third quarter of 2000, Grace's net sales increased 6.0% to $394.7 million compared to the same period in 1999. In the nine months ended September 30, 2000, Grace's net sales were $1,144.2 million, an increase of 4.9% over the prior year. Most of the increase in each period can be attributed to volume gains. Latin American volumes were particularly strong in each period due to a combination of refining catalyst business growth and the continued growth in construction chemicals sales from an acquisition in Chile in December 1999. The negative foreign currency effect on total Grace was experienced principally in Europe where sales were negatively impacted 11.7% for the quarter and 11.8% year-to-date due to the weakening of European currencies in relation to the U.S. dollar. In total, Grace's third quarter and year-to-date sales were supplemented by acquisitions in refining catalysts, silica products, construction chemicals, building materials and container products ($17.3 million for the quarter and $29.7 million year-to-date).

PRE-TAX INCOME FROM CORE OPERATIONS

Pre-tax income from core operations was $53.0 million for the third quarter of 2000, compared to $48.9 million for the third quarter of 1999, an 8.4% increase. This increase was driven primarily by a reduction in corporate operating costs over the 1999 third quarter. In 1999 Grace completed much of its corporate relocation. The impact of higher raw material costs, higher natural gas prices, higher freight costs and weakened European currencies caused pre-tax operating income from Davison Chemicals and Performance Chemicals to be essentially flat with the third quarter 1999. Pre-tax income from core operations was $151.5 million for the nine months ended September 30, 2000, compared to $126.8 million for the same period in 1999, a 19.5% increase. The increase in this period was driven primarily from lower corporate costs and by margin improvement in the Davison Chemicals segment.

Operating income of Davison Chemicals for the third quarter of 2000 was $33.5 million, up 0.9% versus 1999, and its operating margin of 17.4% was 1.2 percentage points less than the prior year. Operating income of Performance Chemicals for the third quarter of 2000 was $30.6 million, down 1.9% from 1999. However, the third quarter 1999 included an unusual gain of $1.3 million in Performance Chemicals related to the sale of plant assets in the United Kingdom. Excluding this unusual item, third quarter 2000 operating income increased 2.3% versus 1999 and the operating margin for third quarter 2000 was 15.1%, relatively flat as compared to third quarter 1999. Davison Chemicals had strong results for the nine months ended September 30, 2000 with operating margin of 18.3%, up 2.0 percentage points from prior year, reflecting the impact of higher revenues, improved product mix and productivity gains. Performance Chemicals results were relatively flat compared to the prior year with an operating margin of 14.0% (down 0.3 percentage point).

The following table identifies the percentage improvement in the cost per dollar of sales for each business segment and Grace's core operations in total for the nine-month period ended September 30, 2000. The index is calculated using 1998 as the base year and carving out selling price changes, currency movements and cost inflation in every year since the base year. The resulting change in cost per dollar of sales is Grace's productivity measure. Changes in product volume and mix remain in the productivity equation.

PRODUCTIVITY INDEX	NINE MONTHS ENDED SEPTEMBER 30, 2000	1999
COST PER $ OF SALES ON A CONSTANT $ BASIS WITH 1998 AS BASE YEAR:		
Davison Chemicals	$ .788	$ .829
Performance Chemicals.........	.845	.863
Corporate operating costs.....	.027	.033
Total core operations.........	$ .843	$ .879
PERCENTAGE IMPROVEMENT FROM PRIOR YEAR	4.1%	4.4%

As reflected in the table above, on a constant dollar basis with 1998, Grace produced a 4.1% improvement during the nine months ended September 30, 2000. Most of the improvement was attributable to improvements in corporate costs, manufacturing processes and infrastructure integration.

Corporate operating costs include expenses incurred by corporate headquarters functions in support of core operations. During 1999, many of these functions were relocated from Boca Raton, Florida to the Davison Chemicals Headquarters in Columbia, Maryland. As such, the annual 1999 cost structure included incremental relocation costs, employee separation costs and duplicative salaries that occurred during the transition. Corporate operating costs in the third quarter of 2000 were $11.1 million, compared to $15.5 million in third quarter 1999, a 28.4% reduction. For the nine-month period ended September 30, corporate costs were $33.3 million in 2000 compared to $39.5 million in 1999, a 15.7% reduction.

PRE-TAX INCOME FROM NONCORE ACTIVITIES

The pre-tax income from noncore activities was $5.9 million and $4.6 million for the third quarter 2000 and 1999, respectively. Third quarter 1999 included net insurance proceeds of $2.5 million emanating from a shareholder suit offset by a charge of $1.8 million related to legal defense costs incurred on behalf of five former officers in connection with a lawsuit brought by the Securities and Exchange Commission while these officers were employed by Grace. The remainder of the increase after adjusting for these unusual items in 1999 is comprised of increased income generated on the Company's pension assets ($6.1 million in 2000 compared to $3.4 million in 1999) and increased revenue from marketable securities ($3.6 million in 2000 compared to $2.6 million in 1999) partially offset by accruals for legal and environmental matters primarily related to the Company's former operations in Libby, Montana. For the nine months ended September 30, 2000 income from noncore activities was $6.3 million, compared to $9.8 million for the same period in 1999. The income from noncore activities for the nine months ended September 30, 1999 included the net insurance proceeds and charge related to legal defense costs discussed above, $4.4 million gain from the sale of a corporate aircraft and a charge related to the settlement of a lawsuit with the Securities and Exchange Commission which required the Company to establish a $1.0 million educational fund for public sector programs to increase awareness and education relating to financial statements and generally accepted accounting principles.

INTEREST AND INCOME TAXES

Net interest expense for the third quarter of 2000 was $5.7 million, an increase of $3.4 million, or 147.8%, over the third quarter of 1999. Net interest expense

for the nine months ended September 30, 2000 was $12.8 million, a 50.6% increase over the same period in 1999. The increase for both periods is attributable to an increased average debt level on Grace's revolving credit facilities. This increased average debt level was used to fund the share repurchase program, business acquisitions and working capital requirements.

The Company's effective tax rate was 36.0% for the three-month and nine-month periods ended September 30, 2000 and 1999.

DAVISON CHEMICALS

Recent Acquisitions

On January 31, 2000 Grace acquired Crosfield Group's hydroprocessing catalyst business from Imperial Chemical Industries PLC ("ICI"). This business had $2.1 million of sales in the third quarter of 2000 and $10.2 million of sales in the nine-month period ended September 30, 2000. In June 2000, Grace acquired the Ludox(R) colloidal silica business of the DuPont Company, sales from which accounted for $6.6 million in silica products for the third quarter 2000. These acquisitions have been accounted for as purchase business combinations, and accordingly, the results of operations of the acquired businesses have been included in the consolidated statement of operations from the date of their respective acquisitions.

Sales

Davison Chemicals is a leading global supplier of catalysts and silica products. Refining catalysts, which represents approximately 27.0% of the third quarter and nine-month year-to-date 2000 total Grace sales, include fluid cracking catalysts used by petroleum refiners to convert distilled crude oil into transportation fuels and other petroleum-based products, hydroprocessing catalysts which upgrade heavy oils and remove certain impurities, and chemical additives

for treatment of feedstock impurities. In 1999, refining catalysts also represented approximately 27.0% of the third quarter and nine-month year-to-date sales. Chemical catalysts, which represent approximately 8.0% for both the third quarter 2000 and nine-month year-to-date total Grace sales, include polyolefin catalysts, (essential components in the manufacturing of polyethylene resins used in products such as plastic film, high performance plastic pipe and plastic household containers), autoexhaust catalyst systems and Raney(R) nickel catalysts. In 1999, chemical catalysts represented approximately 8.0% of the third quarter and nine-month year-to-date sales. Silica products, which represents approximately 14.0% of the third quarter 2000 and nine-month year-to-date total Grace sales are used in a wide variety of industrial and consumer applications such as coatings, food processing, plastics, adsorbents and personal care products. In 1999, silica products represented approximately 14.0% of the third quarter and nine-month year-to-date sales.

In the third quarter of 2000, refining catalysts sales were $105.1 million, an increase of 6.7% compared to the same period in 1999. For the nine months ended September 30, 2000, refining catalysts sales were $318.3 million, an increase of 8.9% compared to the same period in 1999. Excluding the ICI acquisition discussed above, refining catalysts sales for the third quarter 2000 were $103.0 million, or a 4.6% increase over third quarter 1999 and sales for the nine-month period were $308.1 million or 5.4% favorable to 1999. This increase is a result of volume gains experienced in all regions and favorable product mix.

Chemical catalysts sales increased 7.9% to $30.2 million in the third quarter of 2000 and increased 9.0% to $89.3 million for the nine months ended September 30, 2000 mainly due to strong growth in automotive washcoat materials, partially offset by a softer demand for polyolefin catalyst and negative currency translation, primarily in Europe.

Silica products sales for the third quarter and the nine-month period 2000 were up 10.4% and 2.7%, respectively, compared to the same period of 1999. Excluding the Ludox(R) acquisition discussed above, silica products sales declined 2.3% to $50.7 million in the third quarter 2000 as volume gains and favorable product mix were offset by negative currency translation. Excluding the negative impact of currency translations, third quarter sales were up 17.1% and nine-month period sales were up 9.3%. This negative translation effect is primarily due to the fact that a significant portion (45.0% of year-to-date sales) of this business is based in Europe.

Operating Earnings

Pre-tax operating income of $33.5 million for the third quarter 2000 was 0.9% better than third quarter 1999. Operating margins declined 1.2 percentage points to 17.4%, as rising natural gas prices and the weakening European currencies were only partially offset by productivity improvements realized through Six Sigma initiatives.

PERFORMANCE CHEMICALS

Recent Acquisitions

In December 1999, Grace acquired Sociedad Petreis S.A.'s "Polchem" concrete admixture and construction chemicals business from Cemento Polpaico S.A. Chile, an affiliate of Holderbank of Switzerland. For the third quarter and nine-month period 2000, this business had sales of $1.2 million and $3.9 million, respectively. In March 2000, Grace acquired International Protective Coatings Corp. (IPC). For the third quarter and nine-month period 2000, this business had sales of $1.7 and $3.3 million, respectively. In July 2000, Grace acquired the Hampshire Polymers Business from the Dow Chemical Company. For the third quarter 2000, this business had sales of $5.5 million. These acquisitions have been accounted for as purchase business combinations, and accordingly, the results of operations of the acquired businesses have been included in the consolidated statement of operations from the date of their respective acquisitions.

Sales

Performance Chemicals was formed in 1999 by combining the previously separate business segments of Grace Construction Products and Darex Container Products. These businesses were consolidated under one management team to capitalize on infrastructure synergies from co-location of headquarters and production facilities around the world. The major product groups of this business segment include specialty construction chemicals and specialty building materials used primarily by the nonresidential construction industry; and container sealants and coatings for food and beverage packaging, and other related products. Grace's construction chemicals product group, which represents approximately 21.0% of third quarter 2000 and nine-month period 2000 total Grace sales add strength, control corrosion, and enhance the handling and application of concrete, cement, and masonry products. In 1999, construction chemicals represented approximately 20.0% of the third quarter and nine-month year-to-date sales. Grace's building materials product group, which represents approximately 14.0% of the third quarter

2000 and nine-month period total Grace sales, prevent water damage to structures and protect structural steel against collapse due to fire. In 1999, building materials represented approximately 15.0% of the third quarter and nine-month year-to-date sales. Grace's container product group, which represents approximately 16.0% of the third quarter 2000 and nine-month period total Grace sales, includes compounds that seal beverage and food cans, and glass and plastic bottles, and protect metal packaging from corrosion and the contents from the influences of metal. In 1999, container products represented approximately 16.0% of the third quarter and nine-month year-to-date sales.

In the third quarter of 2000, sales of construction chemicals were $83.2 million, an increase of 3.7% over the same period in 1999. For the nine months ended September 30, 2000, sales of construction chemicals were $237.0 million, an increase of 6.6% over the same period in 1999. Excluding the "Polchem" acquisition discussed above, third quarter 2000 sales for construction chemicals were $82.0 million, or a 2.2% increase over third quarter 1999, and nine-month period 2000 sales were $233.1 million, or a 4.9% increase over the same period in 1999. This increase was driven by penetration of high performance products in all three product areas, especially durable concrete and value added water reducers programs. The negative effect of European currency translation partially offset these increases.

Sales of building materials in the third quarter of 2000 increased 4.0% to $57.1 million compared to third quarter 1999. This growth was attributable to new product sales in fire protection and volume gains in roofing underlayments. Currency translation in Europe and weak construction activity in the United Kingdom partially offset these gains. For the nine months ended September 30, 2000, sales increased 3.4% to $166.8 million. Excluding the IPC acquisition discussed above, third quarter 2000 sales of building materials were $55.4 million, or a 0.9% increase over third quarter 1999, and nine-month period 2000 sales were $163.5 million, essentially flat over the same period in 1999.

Sales of container products increased 5.3% for the third quarter 2000 while sales decreased 2.4% for the nine months ended September 30, 2000. The acquisition of Hampshire polymers drove increases in the third quarter as volume gains in can sealing and coatings were more than offset by unfavorable foreign exchange in both the third quarter and nine months ended September 2000. Excluding the negative impacts of currency translations, sales were up 9.5% and 1.3% compared to third quarter 1999 and nine months ended September 30, 1999, respectively.

Operating Earnings

Pre-tax operating income decreased 1.9% to $30.6 million in the third quarter of 2000. Pre-tax operating income in the third quarter of 1999 included a gain on the sale of plant assets in the United Kingdom of $1.3 million. Excluding this unusual item, operating income in the third quarter of 2000 increased 2.3%. This increase is primarily due to volume gains and productivity efficiencies realized through Six Sigma initiatives offset by higher transportation costs in construction chemicals and higher petroleum based raw material costs in building materials and container products.

DISCONTINUED OPERATIONS

CROSS COUNTRY STAFFING

In July 1999, the Company completed the sale of substantially all of its interest in Cross Country Staffing (CCS), a provider of temporary nursing and other healthcare services. The net pre-tax gain of $74.8 million ($32.1 million after-tax) and the operating results of CCS prior to the sale are included in "Income from discontinued operations, net of tax" in the Consolidated Statement of Operations. For the third quarter of 1999, the results of CCS's operations were a loss of $13.3 million ($6.2 million after-tax). For the nine months ended September 30, 1999, the results of CCS's operations were a loss of $8.6 million ($4.0 million after-tax).

PACKAGING BUSINESS

On March 31, 1998, a predecessor of the Company completed a transaction in which its flexible packaging business was combined with Sealed Air Corporation. Results from discontinued operations for the nine months ended September 30, 1999 included a $9.1 million expense ($5.7 million after-tax) for a related pension plan settlement loss.

RETAINED OBLIGATIONS

Under certain divestiture agreements, the Company has retained contingent obligations that could develop into situations where accruals for estimated costs of defense or loss would be recorded in a period subsequent to divestiture under generally accepted accounting principles. The Company assesses its retained risks quarterly and accrues amounts estimated to be payable related to these obligations when probable and estimable. During the third quarter 2000, Grace recognized $2.1 million net of after-tax earnings from discontinued operations related to reversal of environmental reserve (see the discussion on

environmental matters for more detail). During the third quarter of 2000, Grace revised its estimate of the outcome of certain retained obligations based on current circumstances and as a result, recorded an additional charge of $3.2 million ($2.1 million after-tax). During the three months ended September 30, 1999, the Company revised its estimate of the outcome of certain of these retained contingent obligations based on current circumstances and, as a result, recorded an additional charge of $25.7 million ($16.7 million after tax).

FINANCIAL CONDITION

The charts below are intended to enhance the readers' understanding of the Company's overall financial position by showing assets, liabilities and cash flows related to core operations separately from those related to noncore activities. The Company's management structure and activities are tailored to the separate focus and accountability of core operations and noncore activities.

CORE OPERATIONS (Dollars in millions)	SEPTEMBER 30, 2000	December 31, 1999
CAPITAL INVESTED IN CORE OPERATIONS		
BOOK VALUE OF INVESTED CAPITAL		
Receivables	$ 194.2	$ 181.9
Inventory	137.2	128.2
Properties and equipment, net	592.5	611.2
Intangible assets and other........	407.8	345.9
ASSETS SUPPORTING CORE OPERATIONS..	$ 1,331.7	$ 1,267.2
Accounts payable and accruals......	(327.3)	(358.1)
CAPITAL INVESTED IN CORE OPERATIONS	$ 1,004.4	$ 909.1
After-tax return on average invested capital (trailing four quarters)...............	13.4%	12.5%

NET CASH FLOW FROM CORE OPERATIONS	NINE MONTHS ENDED SEPTEMBER 30, 2000	1999
CASH FLOWS:		
Pre-tax operating income	$ 151.5	$ 126.8
Depreciation and amortization	65.9	67.8
PRE-TAX EARNINGS BEFORE DEPRECIATION AND AMORTIZATION	217.4	194.6
Working capital changes	(31.1)	(28.5)
Changes in other assets/liabilities	(67.5)	(47.5)
CASH FLOW BEFORE INVESTMENT	118.8	118.6
Capital expenditures	(38.8)	(54.4)
Businesses acquired	(51.8)	(0.5)
Sale of receivables	(0.5)	38.5
NET CASH FLOW FROM CORE OPERATIONS	$ 27.7	$ 102.2

The Company has a net asset position supporting its core operations of $1,004.4 million at September 30, 2000 compared to $909.1 million at December 31, 1999 including the cumulative translation account reflected in Shareholders' Equity of $148.2 million at September 30, 2000 and $106.1 million at December 31, 1999. Weighted average capital on a trailing twelve-month basis was $973.0 million. The change in the net asset position is primarily due to the net assets resulting from business acquisitions, including goodwill, an increase in deferred pension costs and a reduction in core liabilities due to payments made in the first quarter of 2000, including the payment of accruals that had built up over the course of the prior fiscal year for items such as bonuses, customer rebates and taxes. After-tax return on capital invested in core operations (calculated based on a trailing four quarters) increased 0.9 percentage points.

The Company has a number of financial exposures originating from past businesses, products and events. These obligations arose from transactions and/or business practices that date back to when Grace was a much larger company, when it produced products or operated businesses that are no longer part of its revenue base, and when government regulations and scientific knowledge were much less advanced than today. Grace's current core operations, together with other available assets, are being managed to generate sufficient cash flow to fund these obligations over time.

NONCORE ACTIVITIES (Dollars in millions) NET NONCORE LIABILITY	SEPTEMBER 30, 2000	December 31, 1999 (Restated)
BOOK VALUE OF ASSETS AVAILABLE TO FUND NONCORE OBLIGATIONS:		
Cash and other financial assets	$ 292.1	$ 345.8
Properties and investments	11.2	8.8
Asbestos-related insurance receivable	315.9	371.4
Tax assets, net.....................	308.2	318.3
ASSETS AVAILABLE TO FUND NONCORE OBLIGATIONS.....................	927.4	1,044.3
Noncore liabilities:		
Asbestos-related litigation.........	(897.9)	(1,084.0)
Environmental remediation...........	(192.0)	(215.5)
Postretirement benefits.............	(194.3)	(201.4)
Retained obligations and other......	(78.0)	(99.1)
TOTAL NONCORE LIABILITIES...........	(1,362.2)	(1,600.0)
NET NONCORE LIABILITY...............	*$ (434.8)*	*$ (555.7)*

NET CASH FLOW FROM NONCORE ACTIVITIES	NINE MONTHS ENDED SEPTEMBER 30, 2000	1999
Pre-tax income from noncore activities.....................	$ 6.3	$ 9.8
Proceeds from noncore asset sales ..	6.3	20.4
Other changes.......................	(1.1)	(0.5)
Cash spending for:		
Asbestos-related litigation, net of insurance recovery......	(140.3)	(40.3)
Environmental remediation.........	(27.9)	(18.6)
Postretirement benefits...........	(15.1)	(14.8)
Retained obligations and other....	(15.0)	(71.4)
TOTAL SPENDING FOR NONCORE LIABILITIES	(198.3)	(145.1)
NET CASH FLOW OF NONCORE ACTIVITIES	$ (186.8)	$ (115.4)

The table above displays the book value of Grace's noncore liabilities and the assets available to fund those liabilities at September 30, 2000 and December 31, 1999. Each liability has different characteristics, risks and expected liquidation profile. Taken together, these liabilities represent $1,362.2 million of Grace's total liabilities as reflected on its consolidated balance sheet at September 30, 2000. Assets available to fund noncore liabilities consist of cash and cash equivalents, net cash value of life insurance where Grace is the beneficiary, property and investments not used in core operations, insurance coverage for asbestos-related litigation and net tax assets related to noncore liabilities. These assets, which in the aggregate total $927.4 million at September 30, 2000, are not required to support base core operating activities and, thus, are available to fund noncore liabilities.

ASBESTOS-RELATED MATTERS

Grace is a defendant in lawsuits relating to previously sold asbestos-containing products. Grace paid $89.5 million and $140.3 million for the defense and disposition of asbestos-related property damage and bodily injury litigation, net of amounts received under settlements with insurance carriers, during the third quarter 2000 and nine months ended September 30, 2000, respectively. In 1999, Grace paid a net of $10.6 million and $40.3 million during the third quarter and nine months ended September 30, respectively. The amount of spending in 2000 is consistent with Grace's expectation that spending throughout 2000 will be higher than 1999 due to the timing and adjudication of certain cases. At September 30, 2000 Grace's net current liability (that which is expected to be paid within twelve-months) for asbestos related litigation is $106.4 million compared to $124.1 million at December 31, 1999.

The Consolidated Balance Sheet at September 30, 2000 reflects a net liability after insurance and after tax benefits of $371.1 million. Total amounts due from insurance carriers of $315.9 million are pursuant to settlement agreements with insurance carriers and net tax assets of $210.9 million relate to future net tax deductions for asbestos-related matters. The net present value of such net liability (based on cash flow projections that span nearly 40 years - inherently imprecise but representing management's best current estimate) is approximately $270 million (discounted at 5.2% - estimated after-tax investment rate) at September 30, 2000.

See Note 3 to the Consolidated Financial Statements for further information concerning asbestos-related lawsuits and claims, including factors that could cause management to change liability estimates.

ENVIRONMENTAL MATTERS

Grace is subject to loss contingencies resulting from extensive and evolving federal, state, local and foreign environmental laws and regulations relating to the generation, storage, handling, discharge and disposition of hazardous wastes and other materials. Grace made cash payments to remediate environmentally impaired sites during the third quarter 2000 and 1999 of $9.1 million and $3.7 million, respectively, and during the nine-month period 2000 and 1999 of $27.9 million and $18.7 million, respectively. During 2000, a $10.8 million ($7.0 million after-tax) charge for discontinued operations was taken to fund the estimated cost to remediate one site identified to be environmentally impaired. During the third quarter 2000, Grace identified savings related to four specific sites. As a result, Grace reversed $6.4 million of environmental reserve and recognized $4.1 million after-tax earnings from discontinued operations. At September 30, 2000 Grace's liability for environmental investigatory and remediation costs related to continuing and discontinued operations

totaled $192.0 million, as compared to $215.5 million at December 31, 1999. In the nine-month period 2000, cash payments were higher than the same period of 1999 due to a settlement for a particular site which was made in the first quarter 2000. Grace's estimate of pre-tax cash outlays for remediation costs over the next twelve-months is $49.4 million.

Grace is in litigation with two insurance carriers regarding the applicability of the carriers' policies to environmental related costs. The outcome of such litigation, as well as the amounts of any recoveries that Grace may receive, is presently uncertain. Accordingly, Grace has not recorded a receivable with respect to such insurance coverage.

See Note 13 to the Consolidated Financial Statements for further information concerning environmental matters.

POSTRETIREMENT BENEFITS

Grace provides certain postretirement health care and life insurance benefits for retired employees, a large majority of which pertains to retirees of previously divested businesses. These plans are unfunded, and Grace pays the costs of benefits under these plans as they are incurred.

Spending under this program during the third quarter 2000 was $5.0 million and during the nine-month period 2000 was $15.1 million. This amount is consistent with expected spending of approximately $21 million for the year ended December 31, 2000. Grace's recorded liability of $194.2 million at September 30, 2000 is stated at net present value discounted at 8%.

RETAINED OBLIGATIONS OF DIVESTED BUSINESSES

The principal retained obligations of divested businesses relate to contractual indemnification and to contingent liabilities not passed on to the new owner. At September 30, 2000, Grace had recorded $78.0 million to satisfy such obligations. Of this total, $11.5 million will be paid over periods ranging from 2 to 10 years. The remainder represents estimates of probable cost to satisfy specific contingencies expected to be paid within one year.

LIQUIDITY AND CAPITAL RESOURCES

CHANGES IN LIQUIDITY POSITION
(Dollars in millions)

	Cash	Cash Value of Life Insurance	(Debt)	Net Cash/ (Debt)	Unused Credit Facilities
Beginning of year.....	$ 199.8	$ 81.6	$(136.2)	$ 145.2	$ 410.0
September 30, 2000....	145.7	104.9	(307.8)	(57.2)	250.0
Change......	$ (54.1)	$ 23.3	$(171.6)	$(202.4)	

The increase in net (debt) as reflected in the above table was primarily used to fund capital expenditures and investments in acquired businesses of $93.2 million and discreet noncore liabilities (those that are not continuing or likely to reoccur) of $104.1 million.

Cash flows from core operations before investment during the nine months ended September 30, 2000 was an inflow of $118.8 million compared to an inflow in the same period of 1999 of $118.6 million. Net cash flows from core operations during the nine months ended September 30, 2000 and 1999 were $27.7 million and $102.2 million respectively. This reduction in net cash flows from core operations is primarily attributable to investments in businesses acquired of $51.8 million and a reduction of $39.0 million in cash received related to the sale of receivables. This sale of receivables generated an inflow of cash beginning in the fourth quarter 1998 and completed in the first quarter of 1999 with a $39 million inflow for the 1999 year-to-date. Following the first quarter of 1999, the net cash flow generated by the sale of receivables program remains at a constant level.

The net cash flow of noncore activities was $(186.8) million in the nine-month period 2000 compared to $(115.4) million in the nine-month period 1999. The timing of these expenditures is impacted in part by Grace's legal and cash management strategies. Postretirement benefit payments were consistent with the prior year as these payments are based on comparable year-over-year benefit programs. In the nine months ended September 30, 2000, the payments for retained obligations of divested businesses and other matters were favorable by $56.4 million compared to 1999. This is primarily attributable to the timing of tax payments and refunds related to noncore activities. Net cash flow of noncore activities in 1999 also included the $20.4 million of proceeds from sale of the corporate aircraft.

Cash flows used for investing activities during the nine-month period 2000 were $102.5 million, compared to $94.5 million of cash provided by investing activities during 1999. This decrease is primarily attributable to net cash proceeds of $128.9 million from the sale of Cross County Staffing (CCS). The sale of CCS occurred in the third quarter of 1999. Net cash outflow during 2000 was impacted by capital expenditures, $48.1 million for business acquisitions, and $18.0 million net investment in life insurance policies partially offset by $8.7 million of proceeds from disposals of assets. Total capital expenditures during the nine-month period 2000 and 1999 were $41.4 million and $54.4 million, respectively, substantially all of which was directed toward the business segments. In addition to the impact of the CCS sale and capital expenditures, both of which are discussed above, the net cash inflow during 1999 was impacted by the proceeds from the sale of the corporate aircraft ($20.4 million).

Net cash provided by financing activities during the nine-month period 2000 was $135.1 million, principally representing $197.0. million in net borrowings against the Company's credit facility partially offset by a $24.7 million repayment of long-term debt and $43.0 million used to purchase shares of the Company's stock. The net borrowings against the credit facility were used primarily to pay long-term debt, to fund business acquisitions and capital expenditures and to repay certain discreet noncore obligations. Net cash used by financing activities during 1999 was $93.1 million, principally representing $32.2 million used to repay borrowings under credit facilities and $58.7 million used to purchase the Company's stock.

At September 30, 2000, Grace had committed borrowing facilities totaling $500.0 million, consisting of $250.0 million expiring in May 2001 and $250.0 million under a long-term facility expiring in May 2003. These facilities support the issuance of commercial paper and bank borrowings, of which $250.0 million was outstanding at September 30, 2000. The aggregate amount of net unused and unreserved borrowings under short-term and long-term facilities at September 30, 2000, was $250.0 million. Total debt was $307.8 million at September 30, 2000, an increase of $171.6 million from December 31, 1999. In addition, at September 30, 2000, Grace had uncommitted line of credit arrangements aggregating $85.0 million in available capacity that is used from time-to-time to satisfy temporary liquidity needs. Amounts outstanding under these arrangements totaled $36.2 million as of September 30, 2000. These lines are subject to repayment on demand.

Grace is the beneficiary of life insurance policies on current and former employees with benefits in force of approximately $2,282 million and net cash surrender value of $104.9 million at September 30, 2000, comprised of $445.4 million in policy gross cash value offset by $340.5 million of principal and accrued interest on policy loans. The policies were acquired to fund various employee benefit programs and other long-term liabilities and are structured to provide cash flows (primarily tax-free) over the next 40-plus years.

The Company intends to utilize policy cash flows, which are actuarially projected to range from $15 million to $50 million annually over the policy terms, to fund (partially or fully) noncore liabilities and to earmark gross policy cash value as a source of funding for noncore obligations. The Company also intends to explore structuring options for the policies and policy loans to enhance returns on assets, to reduce policy expenses and to better match policy cash flows with payments of noncore liabilities.

Grace employees currently receive salaries, incentive bonuses, other benefits, and stock options. Each stock option granted under the Company's stock incentive plan has an exercise price equal to the fair market value of the Company's common stock on the date of grant. In the first nine months of 2000, the Company granted a total of 2,526,500 options with an average exercise price of $13.43. Poor stock price performance or other factors could diminish the value of the option program to current and prospective employees and cause the Company to change its long-term incentive compensation program into more of a cash-based program.

In April 1998, the Company's Board of Directors approved a program to repurchase up to 20% of the Company's outstanding shares in the open market. In the second quarter of 2000, the Company completed this authorization by purchasing 766,690 shares of common stock for $9.6 million (an average price per share of $12.58). In total, the Company acquired 15,167,090 shares of common stock for $212.5 million under this program (an average price per share of $14.01).

In May 2000, the Company's Board of Directors approved a program to repurchase up to 12,000,000 of the Company's outstanding shares in the open market. Through September 30, 2000, the Company had acquired 1,753,600 shares of common stock for $12.2 million under the program (an average price per share of $6.98).

Grace believes that its current cash position together with cash flow generated from core operations, assets available to fund noncore obligations and committed borrowing facilities will be sufficient to meet its cash requirements and fund business growth for the foreseeable future. However, the recent petitions under Chapter 11 of the Federal Bankruptcy Code by certain companies involved in asbestos bodily injury litigation (discussed in Note 3 to the Consolidated Financial Statements) may negatively impact the credit ratings and available credit sources of other defendants in asbestos-related litigation, including Grace. Grace's ability to fund its strategic growth initiatives and to discharge its liabilities is dependent upon Grace's lenders and insurers providing continued support and coverage at levels consistent with those available to Grace at September 30, 2000.

ACCOUNTING PRONOUNCEMENTS

In June 1999, the Financial Accounting Standards Board (FASB) issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS No. 133." This statement defers the effective date of SFAS 133 for one year. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities and measure those instruments at fair value. Based on analysis to date, it is not expected that adoption of this statement will have a material effect on the Company's financial statements.

FORWARD-LOOKING STATEMENTS

The forward-looking statements contained in this document are based on current expectations regarding important risk factors. Actual results may differ materially from those expressed. In addition to the uncertainties referred to in Management's Discussion and Analysis of Results of Operations and Financial Condition and in Note 3 to the Consolidated Financial Statements, other uncertainties include the impact of worldwide economic conditions; pricing of both the Company's products and raw materials; customer outages and customer demand; factors resulting from fluctuations in interest rates and foreign currencies; the impact of competitive products and pricing; success of Grace's process improvement initiatives; and the impact of tax and legislation and other regulations in the jurisdictions in which the Company operates. Also, see "Introduction and Overview - Projections and Other Forward-Looking Information" in Item 1 of Grace's 1999 Annual Report on Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Grace had no outstanding financial derivative instruments on September 30, 2000. For further information concerning Grace's quantitative and qualitative disclosures about market risk, refer to Note 11 in the Consolidated Financial Statements in the 1999 Form 10-K.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

(a) Note 3 to the interim consolidated financial statements in Part I of this Report is incorporated herein by reference.

(b) Reference is made to the section entitled "U.S. Justice Department Lawsuit" in Item 3 of the Company's 1999 10-K for information concerning a lawsuit alleging that Baker & Taylor Books, a book wholesaler sold by Grace in 1992, overcharged public schools, libraries and federal agencies. On July 31, 2000 Grace and the plaintiffs entered into a settlement agreement pursuant to which Grace paid the plaintiffs a total of $9.25 million.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits. The following is a list of Exhibits filed as part of this Quarterly Report on Form 10-Q.

10 Letter Agreement dated July 5, 2000 between P. J. Norris, on behalf of W. R. Grace & Co., and David B. Siegel

15 Accountant's Awareness Letter

27 Financial Data Schedule

(b) Reports on Form 8-K. The Company filed no reports on Form 8-K during the third quarter and to date during the fourth quarter of 2000.

SIGNATURE

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

W. R. GRACE & CO.

(Registrant)

Date: November 16, 2000

By /s/ Robert M. Tarola

Robert M. Tarola
Chief Financial Officer
(Principal Accounting Officer)

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
10	Letter Agreement dated July 5, 2000 between P. J. Norris, on behalf of W. R. Grace & Co., and David B. Siegel
15	Accountant's Awareness Letter
27	Financial Data Schedule

EXHIBIT 10

[OBJECT OMITTED]

David B. Siegel
Senior Vice President and General Counsel

W. R. Grace & Co.
7500 Grace Drive
Columbia, MD 21044

Phone: (410) 531-4170

July 5, 2000

Mr. P. J. Norris
Chairman, President & CEO
W. R. Grace & Co.

Dear Paul:

Per our recent discussions, the following is a summary of the employment status, compensation and other arrangements that we agreed to regarding my personal situation in connection with the extension of my Employment Agreement dated June 10, 1999 as related to the relocation of the Company's Headquarters to Columbia, Maryland.

1. I will remain with the Company in the position of Senior Vice President and General Counsel.

2. Under this extended arrangement, I will continue to divide my working time approximately 50%/50% between Boca Raton, Florida and Columbia, Maryland, with the intention of remaining with the Company as Senior Vice President and General Counsel provided that the Company or I may give 30 days notice in writing to terminate this Agreement and my employment.

   If notice by either party is not received by May 31, 2001, we will reach a mutual agreement for me to either stay with the Company or to resign as of June 30, 2001. In either case, however, voluntary termination or resignation at the Company's request before June 30, 2001, I will be eligible for all of the Productivity Effectiveness Program (PEP) separation arrangements including, but not limited to, severance pay, vesting of all pre-May 10, 2000 stock option grants and prorated restricted shares to the extent applicable, etc. Further, in the event we mutually agree to extend my employment with the Company beyond June 30, 2001, I will become an employee at will and not be eligible for the PEP severance arrangement in the event of my voluntary resignation or my resignation at the Company's request.

3. If I become entitled to receive severance benefits under the Executive Severance Agreement between me and the Company (i.e., the "Golden Parachute"), then I will receive benefits under that Agreement and will not receive the benefits of the PEP separation arrangements. In addition, if I become eligible to receive severance pay under any other program or plan of the Company (other than the PEP separation arrangements), at the time I become entitled to receive benefits under the PEP separation arrangements, then I will not receive benefits under such other program or plan of the Company, and will only receive the benefits of the PEP separation arrangements; except that, if the benefits under such other program or plan are of greater cash value than the benefits of the PEP separation arrangements, I will only receive benefits under such other program or plan and not under the PEP separation arrangements.

4. In addition, I continue to be ineligible for the PEP relocation features such as, but not limited to, the Boca Raton home sale, home purchase in the Columbia, Maryland area, and miscellaneous allowance or the state income tax lump-sum payment. These features of the relocation program will be available to me if we mutually agree that I will relocate to Columbia after June 30, 2001.

5. In connection with dividing my working time between Boca Raton and Columbia, the Company will continue to provide the following:

- Availability of a furnished, one bedroom/den apartment in Baltimore
- Midsize rental car while on business in Columbia
- Roundtrip coach airfare

In recognition of the above, I agree to pay for all of my other individual expenses, including meals (except business meals) while in Columbia.

This letter constitutes all the employment status and compensation arrangements agreed to regarding my personal situation in connection with the relocation of the Company's Headquarters to Columbia, Maryland and supersedes the provisions of our June 10, 1999 Agreement.

Sincerely,

Agreed and Accepted:

P. J. Norris

Date

cc: W. B. McGowan
W. L. Monroe

WLM:sec

EXHIBIT 15

November 16, 2000

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Commissioners:

We are aware that our report dated November 16, 2000 on our review of interim financial information of W. R. Grace & Co., (the "Company") as of and for the period ended September 30, 2000 and included in the Company's quarterly report on Form 10-Q for the quarter then ended is incorporated by reference in its Registration Statements on Form S-8 (Nos. 333-37024, 333-49083, 333-49507, 333-49509, 333-49511, 333-49513, 333-49515, 333-49517, 333-49703, and 333-49705).

Very truly yours,

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Baltimore, Maryland

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